



Senate

General Assembly

January Session, 2007

File No. 402

Senate Bill No. 1385

Senate, April 10, 2007

The Committee on Planning and Development reported through SEN. COLEMAN of the 2nd Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING PROPERTY TAX REFORM.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 12-700 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective from*
3 *passage and applicable to taxable years commencing on or after January 1,*
4 *2007*):

5 (a) There is hereby imposed on the Connecticut taxable income of
6 each resident of this state a tax:

7 (1) At the rate of four and one-half per cent of such Connecticut
8 taxable income for taxable years commencing on or after January 1,
9 1992, and prior to January 1, 1996.

10 (2) For taxable years commencing on or after January 1, 1996, but
11 prior to January 1, 1997, in accordance with the following schedule:

12 (A) For any person who files a return under the federal income tax
13 for such taxable year as an unmarried individual or as a married

14 individual filing separately:

T1	Connecticut Taxable Income	Rate of Tax
T2	Not over \$2,250	3.0%
T3	Over \$2,250	\$67.50, plus 4.5% of the
T4		excess over \$2,250

15 (B) For any person who files a return under the federal income tax
16 for such taxable year as a head of household, as defined in Section 2(b)
17 of the Internal Revenue Code:

T5	Connecticut Taxable Income	Rate of Tax
T6	Not over \$3,500	3.0%
T7	Over \$3,500	\$105.00, plus 4.5% of the
T8		excess over \$3,500

18 (C) For any husband and wife who file a return under the federal
19 income tax for such taxable year as married individuals filing jointly or
20 a person who files a return under the federal income tax as a surviving
21 spouse, as defined in Section 2(a) of the Internal Revenue Code:

T9	Connecticut Taxable Income	Rate of Tax
T10	Not over \$4,500	3.0%
T11	Over \$4,500	\$135.00, plus 4.5% of the
T12		excess over \$4,500

22 (D) For trusts or estates, the rate of tax shall be 4.5% of their
23 Connecticut taxable income.

24 (3) For taxable years commencing on or after January 1, 1997, but
25 prior to January 1, 1998, in accordance with the following schedule:

26 (A) For any person who files a return under the federal income tax
27 for such taxable year as an unmarried individual or as a married
28 individual filing separately:

T13	Connecticut Taxable Income	Rate of Tax
T14	Not over \$6,250	3.0%
T15	Over \$6,250	\$187.50, plus 4.5% of the
T16		excess over \$6,250

29 (B) For any person who files a return under the federal income tax
30 for such taxable year as a head of household, as defined in Section 2(b)
31 of the Internal Revenue Code:

T17	Connecticut Taxable Income	Rate of Tax
T18	Not over \$10,000	3.0%
T19	Over \$10,000	\$300.00, plus 4.5% of the
T20		excess over \$10,000

32 (C) For any husband and wife who file a return under the federal
33 income tax for such taxable year as married individuals filing jointly or
34 any person who files a return under the federal income tax for such
35 taxable year as a surviving spouse, as defined in Section 2(a) of the
36 Internal Revenue Code:

T21	Connecticut Taxable Income	Rate of Tax
T22	Not over \$12,500	3.0%

T23	Over \$12,500	\$375.00, plus 4.5% of the
T24		excess over \$12,500

37 (D) For trusts or estates, the rate of tax shall be 4.5% of their
38 Connecticut taxable income.

39 (4) For taxable years commencing on or after January 1, 1998, but
40 prior to January 1, 1999, in accordance with the following schedule:

41 (A) For any person who files a return under the federal income tax
42 for such taxable year as an unmarried individual or as a married
43 individual filing separately:

T25	Connecticut Taxable Income	Rate of Tax
T26	Not over \$7,500	3.0%
T27	Over \$7,500	\$225.00, plus 4.5% of the
T28		excess over \$7,500

44 (B) For any person who files a return under the federal income tax
45 for such taxable year as a head of household, as defined in Section 2(b)
46 of the Internal Revenue Code:

T29	Connecticut Taxable Income	Rate of Tax
T30	Not over \$12,000	3.0%
T31	Over \$12,000	\$360.00, plus 4.5% of the
T32		excess over \$12,000

47 (C) For any husband and wife who file a return under the federal
48 income tax for such taxable year as married individuals filing jointly or
49 any person who files a return under the federal income tax for such
50 taxable year as a surviving spouse, as defined in Section 2(a) of the

51 Internal Revenue Code:

T33	Connecticut Taxable Income	Rate of Tax
T34	Not over \$15,000	3.0%
T35	Over \$15,000	\$450.00, plus 4.5% of the
T36		excess over \$15,000

52 (D) For trusts or estates, the rate of tax shall be 4.5% of their
53 Connecticut taxable income.

54 (5) For taxable years commencing on or after January 1, 1999, but
55 prior to January 1, 2003, in accordance with the following schedule:

56 (A) For any person who files a return under the federal income tax
57 for such taxable year as an unmarried individual or as a married
58 individual filing separately:

T37	Connecticut Taxable Income	Rate of Tax
T38	Not over \$10,000	3.0%
T39	Over \$10,000	\$300.00, plus 4.5% of the
T40		excess over \$10,000

59 (B) For any person who files a return under the federal income tax
60 for such taxable year as a head of household, as defined in Section 2(b)
61 of the Internal Revenue Code:

T41	Connecticut Taxable Income	Rate of Tax
T42	Not over \$16,000	3.0%
T43	Over \$16,000	\$480.00, plus 4.5% of the

T44 excess over \$16,000

62 (C) For any husband and wife who file a return under the federal
63 income tax for such taxable year as married individuals filing jointly or
64 any person who files a return under the federal income tax for such
65 taxable year as a surviving spouse, as defined in Section 2(a) of the
66 Internal Revenue Code:

T45	Connecticut Taxable Income	Rate of Tax
T46	Not over \$20,000	3.0%
T47	Over \$20,000	\$600.00, plus 4.5% of the
T48		excess over \$20,000

67 (D) For trusts or estates, the rate of tax shall be 4.5% of their
68 Connecticut taxable income.

69 (6) For taxable years commencing on or after January 1, 2003, but
70 prior to January 1, 2007, in accordance with the following schedule:

71 (A) For any person who files a return under the federal income tax
72 for such taxable year as an unmarried individual or as a married
73 individual filing separately:

T49	Connecticut Taxable Income	Rate of Tax
T50	Not over \$10,000	3.0%
T51	Over \$10,000	\$300.00, plus 5.0% of the
T52		excess over \$10,000

74 (B) For any person who files a return under the federal income tax
75 for such taxable year as a head of household, as defined in Section 2(b)
76 of the Internal Revenue Code:

T53	Connecticut Taxable Income	Rate of Tax
T54	Not over \$16,000	3.0%
T55	Over \$16,000	\$480.00, plus 5.0% of the
T56		excess over \$16,000

77 (C) For any husband and wife who file a return under the federal
 78 income tax for such taxable year as married individuals filing jointly or
 79 any person who files a return under the federal income tax for such
 80 taxable year as a surviving spouse, as defined in Section 2(a) of the
 81 Internal Revenue Code:

T57	Connecticut Taxable Income	Rate of Tax
T58	Not over \$20,000	3.0%
T59	Over \$20,000	\$600.00, plus 5.0% of the
T60		excess over \$20,000

82 (D) For trusts or estates, the rate of tax shall be 5.0% of the
 83 Connecticut taxable income.

84 (7) For taxable years commencing on or after January 1, 2007, in
 85 accordance with the following schedule:

86 (A) For any person who files a return under the federal income tax
 87 for such taxable year as an unmarried individual:

T61	<u>Connecticut Taxable Income</u>	<u>Rate of Tax</u>
T62	<u>Not over \$10,000</u>	<u>3.0%</u>
T63	<u>Over \$10,000 but not over</u>	<u>\$300, plus 5% of the excess</u>
T64	<u>\$133,000</u>	<u>over \$10,000</u>

T65	<u>Over \$133,000 but not over</u>	<u>\$6,450, plus 5.25% of the excess</u>
T66	<u>\$398,500</u>	<u>over \$133,000</u>
T67	<u>Over \$398,500</u>	<u>\$20,362.50, plus 5.5% of the</u>
T68		<u>excess over \$398,500</u>

88 (B) For any person who files a return under the federal income tax
 89 for such taxable year as a married individual filing separately:

T69	<u>Connecticut Taxable Income</u>	<u>Rate of Tax</u>
T70	<u>Not over \$16,000</u>	<u>3.0%</u>
T71	<u>Over \$16,000 but not over</u>	<u>\$300.00, plus 5.0% of the excess</u>
T72	<u>\$125,000</u>	<u>over \$16,000</u>
T73	<u>Over \$125,000 but not over</u>	<u>\$6,050.00, plus 5.25% of the</u>
T74	<u>\$375,000</u>	<u>excess over \$125,000</u>
T75	<u>Over \$375,000</u>	<u>\$19,175.00, plus 5.5% of the</u>
T76		<u>excess over \$375,000</u>

90 (C) For any person who files a return under the federal income tax
 91 for such taxable year as a head of household, as defined in Section 2(b)
 92 of the Internal Revenue Code:

T77	<u>Connecticut Taxable Income</u>	<u>Rate of Tax</u>
T78	<u>Not over \$16,000</u>	<u>3.0%</u>
T79	<u>Over \$16,000 but not</u>	<u>\$480.00, plus 5.0% of the</u>
T80	<u>over \$198,000</u>	<u>excess over \$16,000</u>
T81	<u>Over \$198,000 but not</u>	<u>\$9,100, plus 5.25% of the</u>
T82	<u>over \$594,000</u>	<u>excess over \$198,000</u>
T83	<u>Over \$594,000</u>	<u>\$20,790, plus 5.5% of the</u>
T84		<u>excess over \$594,000</u>

93 (D) For any husband and wife who file a return under the federal
 94 income tax for such taxable year as married individuals filing jointly or
 95 any person who files a return under the federal income tax for such
 96 taxable year as a surviving spouse, as defined in Section 2(a) of the
 97 Internal Revenue Code:

T85	<u>Connecticut Taxable Income</u>	<u>Rate of Tax</u>
T86	<u>Not over \$20,000</u>	<u>3.0%</u>
T87	<u>Over \$20,000 but not</u>	<u>\$600.00, plus 5.0% of the</u>
T88	<u>over \$250,000</u>	<u>excess over \$20,000</u>
T89	<u>Over \$250,000 but not</u>	<u>\$12,100, plus 5.25% of the</u>
T90	<u>over \$750,000</u>	<u>excess over \$250,000</u>
T91	<u>Over \$750,000</u>	<u>\$38,350, plus 5.5% of the</u>
T92		<u>excess over \$750,000</u>

98 (E) For trusts or estates, the rate of tax shall be 5.5% of the
 99 Connecticut taxable income.

100 [(7)] (8) The provisions of this subsection shall apply to resident
 101 trusts and estates and, wherever reference is made in this subsection to
 102 residents of this state, such reference shall be construed to include
 103 resident trusts and estates, provided any reference to a resident's
 104 Connecticut adjusted gross income derived from sources without this
 105 state or to a resident's Connecticut adjusted gross income shall be
 106 construed, in the case of a resident trust or estate, to mean the resident
 107 trust or estate's Connecticut taxable income derived from sources
 108 without this state and the resident trust or estate's Connecticut taxable
 109 income, respectively.

110 Sec. 2. (NEW) *(Effective from passage and applicable to taxable years*
 111 *commencing on or after January 1, 2007)* Any person who qualifies for and
 112 claims the earned income credit allowable under Section 32 of the
 113 Internal Revenue Code of 1986, or any subsequent corresponding
 114 internal revenue code of the United States, as from time to time

115 amended, for any taxable year shall be entitled to a credit in determining
116 the amount of tax liability under chapter 229 of the general statutes for
117 such taxable year. The credit allowed under this section shall equal
118 twenty per cent of the credit allowed under Section 32 of said Internal
119 Revenue Code for the taxable year. If the amount of the credit allowed
120 under this section exceeds the taxpayer's liability, the Commissioner of
121 Revenue Services shall treat such excess as an overpayment and shall
122 pay the taxpayer the amount of such excess, without interest.

123 Sec. 3. Subsection (a) of section 12-219 of the general statutes is
124 repealed and the following is substituted in lieu thereof (*Effective July 1,*
125 *2007, and applicable to income years commencing on or after January 1, 2007*):

126 (a) (1) Each company subject to the provisions of this part shall pay
127 for the privilege of carrying on or doing business within the state, the
128 larger of the tax, if any, imposed by section 12-214 and the tax
129 calculated under this subsection. The tax calculated under this section
130 shall be a tax of three and one-tenth mills per dollar for each income
131 year of the amount derived (A) by adding (i) the average value of the
132 issued and outstanding capital stock, including treasury stock at par or
133 face value, fractional shares, scrip certificates convertible into shares of
134 stock and amounts received on subscriptions to capital stock,
135 computed on the balances at the beginning and end of the taxable year
136 or period, the average value of surplus and undivided profit computed
137 on the balances at the beginning and end of the taxable year or period,
138 and (ii) the average value of all surplus reserves computed on the
139 balances at the beginning and end of the taxable year or period, (B) by
140 subtracting from the sum so calculated (i) the average value of any
141 deficit carried on the balance sheet computed on the balances at the
142 beginning and end of the taxable year or period, and (ii) the average
143 value of any holdings of stock of private corporations including
144 treasury stock shown on the balance sheet computed on the balances at
145 the beginning and end of the taxable year or period, and (C) by
146 apportioning the remainder so derived between this and other states
147 under the provisions of section 12-219a, provided in no event shall the
148 tax so calculated exceed one million dollars or be less than [two

149 hundred fifty] four hundred dollars.

150 (2) For purposes of this subsection, in the case of a new domestic
151 company, the balances at the beginning of its first fiscal year or period
152 shall be the balances immediately after its organization or immediately
153 after it commences business operations, whichever is earlier; and in the
154 case of a foreign company, the balances at the beginning of its first
155 fiscal year or period in which it becomes liable for the filing of a return
156 in this state shall be the balances as established at the beginning of the
157 fiscal year or period for tax purposes. In the case of a domestic
158 company dissolving or limiting its existence, the balances at the end of
159 the fiscal year or period shall be the balances immediately prior to the
160 final distribution of all its assets; and in the case of a foreign company
161 filing a certificate of withdrawal, the balances at the end of the fiscal
162 year or period shall be the balances immediately prior to the
163 withdrawal of all of its assets. When a taxpayer has carried on or had
164 the right to carry on business within the state for eleven months or less
165 of the income year, the tax calculated under this subsection shall be
166 reduced in proportion to the fractional part of the year during which
167 business was carried on by such taxpayer. The tax calculated under
168 this subsection shall, in no case, be less than [two hundred fifty] four
169 hundred dollars for each income year. The taxpayer shall report the
170 items set forth in this subsection at the amounts at which such items
171 appear upon its books; provided, when, in the opinion of the
172 Commissioner of Revenue Services, the books of the taxpayer do not
173 disclose a reasonable valuation of such items, the commissioner may
174 require any additional information which may be necessary for a
175 reasonable determination of the tax calculated under this subsection
176 and shall, on the basis of the best information available, calculate such
177 tax and notify the taxpayer thereof.

178 (3) No tax credit allowed against the tax imposed by this chapter
179 shall reduce a company's tax calculated under this subsection to an
180 amount less than [two hundred fifty] four hundred dollars.

181 Sec. 4. Subsection (d) of section 12-219 of the general statutes is

182 repealed and the following is substituted in lieu thereof (*Effective July*
183 *1, 2007, and applicable to income years commencing on or after January 1,*
184 *2007*):

185 (d) Each financial service company, as defined in section 12-218b,
186 shall pay for the privilege of carrying on or doing business within the
187 state, the larger of the tax, if any, imposed by section 12-214 and the tax
188 calculated under this subsection. For each such financial service
189 company, the tax calculated under this subsection shall be [two
190 hundred fifty] four hundred dollars for each income year. No tax
191 credit allowed against the tax imposed by this chapter shall reduce a
192 financial service company's tax calculated under this subsection to an
193 amount less than [two hundred fifty] four hundred dollars.

194 Sec. 5. Section 12-223c of the general statutes is repealed and the
195 following is substituted in lieu thereof (*Effective July 1, 2007, and*
196 *applicable to income years commencing on or after January 1, 2007*):

197 Each corporation included in a combined return shall pay the
198 minimum tax of [two hundred fifty] four hundred dollars prescribed
199 under section 12-219, as amended by this act. No tax credit allowed
200 against the tax imposed by this chapter shall reduce an included
201 corporation's tax calculated under section 12-219, as amended by this
202 act, to an amount less than [two hundred fifty] four hundred dollars.

203 Sec. 6. Subsection (a) of section 12-217ee of the general statutes is
204 repealed and the following is substituted in lieu thereof (*Effective July*
205 *1, 2007, and applicable to income years commencing on or after January 1,*
206 *2007*):

207 (a) Any taxpayer that (1) is a qualified small business, (2) qualifies
208 for a credit under section 12-217j or section 12-217n, and (3) cannot
209 take such credit in the taxable year in which the credit could otherwise
210 be taken as a result of having no tax liability under this chapter may
211 elect to carry such credit forward under this chapter or may apply to
212 the commissioner as provided in subsection (b) of this section to
213 exchange such credit with the state for a credit refund equal to sixty-

214 five per cent of the value of the credit. Any amount of credit refunded
 215 under this section shall be refunded to the taxpayer under the
 216 provisions of this chapter, except that such credit refund shall not be
 217 subject to the provisions of section 12-227. Payment of the capital base
 218 tax under section 12-219, as amended by this act, for an income year
 219 commencing on or after January 1, 2002, in which year the taxpayer
 220 reports no net income, as defined in section 12-213, or payment of the
 221 minimum tax of [two hundred fifty] four hundred dollars under
 222 section 12-219, as amended by this act, or 12-223c, as amended by this
 223 act, for any income year, shall not be considered a tax liability for
 224 purposes of this section.

225 Sec. 7. Subsection (g) of section 12-391 of the general statutes is
 226 repealed and the following is substituted in lieu thereof (*Effective from*
 227 *passage and applicable to estates of decedents who die on or after January 1,*
 228 *2007*):

229 (g) (1) With respect to the estates of decedents dying on or after
 230 January 1, 2005, but prior to January 1, 2007, the tax based on the
 231 Connecticut taxable estate shall be as provided in the following
 232 schedule:

T93	Amount of Connecticut	
T94	Taxable Estate	Rate of Tax
T95	Not over \$2,000,000	None
T96	Over \$2,000,000	
T97	but not over \$2,100,000	5.085% of the excess over \$0
T98	Over \$2,100,000	\$106,800 plus 8% of the excess
T99	but not over \$2,600,000	over \$2,100,000
T100	Over \$2,600,000	\$146,800 plus 8.8% of the excess
T101	but not over \$3,100,000	over \$2,600,000
T102	Over \$3,100,000	\$190,800 plus 9.6% of the excess

T103	but not over \$3,600,000	over \$3,100,000
T104	Over \$3,600,000	\$238,800 plus 10.4% of the excess
T105	but not over \$4,100,000	over \$3,600,000
T106	Over \$4,100,000	\$290,800 plus 11.2% of the excess
T107	but not over \$5,100,000	over \$4,100,000
T108	Over \$5,100,000	\$402,800 plus 12% of the excess
T109	but not over \$6,100,000	over \$5,100,000
T110	Over \$6,100,000	\$522,800 plus 12.8% of the excess
T111	but not over \$7,100,000	over \$6,100,000
T112	Over \$7,100,000	\$650,800 plus 13.6% of the excess
T113	but not over \$8,100,000	over \$7,100,000
T114	Over \$8,100,000	\$786,800 plus 14.4% of the excess
T115	but not over \$9,100,000	over \$8,100,000
T116	Over \$9,100,000	\$930,800 plus 15.2% of the excess
T117	but not over \$10,100,000	over \$9,100,000
T118	Over \$10,100,000	\$1,082,800 plus 16% of the excess
T119		over \$10,100,000

233 (2) With respect to the estates of decedents dying on or after January
 234 1, 2007, the tax based on the Connecticut taxable estate shall be as
 235 provided in the following schedule:

T120	<u>Amount of Connecticut Taxable</u>	<u>Rate of Tax</u>
T121	<u>Estate</u>	
T122	<u>Not over \$5,000,000</u>	<u>None</u>
T123	<u>Over \$5,000,000 but not over</u>	<u>12% of the excess over</u>
T124	<u>\$6,100,000</u>	<u>\$5,000,000</u>
T125	<u>Over \$6,100,000 but not over</u>	<u>\$132,000 plus 12.8% of the</u>
T126	<u>\$7,100,000</u>	<u>excess over \$6,100,000</u>
T127	<u>Over \$7,100,000 but not over</u>	<u>\$260,000 plus 13.6% of the</u>
T128	<u>\$8,100,000</u>	<u>excess over \$7,100,000</u>
T129	<u>Over \$8,100,000 but not over</u>	<u>\$396,000 plus 14.4% of the</u>

T130	<u>\$9,100,000</u>	<u>excess over \$8,100,000</u>
T131	<u>Over \$9,100,000 but not over</u>	<u>\$540,000 plus 15.2% of the</u>
T132	<u>\$10,100,000</u>	<u>excess over \$9,100,000</u>
T133	<u>Over \$10,100,000</u>	<u>\$692,000 plus 16.0% of the</u>
T134		<u>excess over \$10,100,000</u>

236 Sec. 8. Subsection (a) of section 12-642 of the general statutes is
 237 repealed and the following is substituted in lieu thereof (*Effective from*
 238 *passage and applicable to gifts made after January 1, 2007*):

239 (a) (1) With respect to calendar years commencing prior to January
 240 1, 2001, the tax imposed by section 12-640 for the calendar year shall be
 241 at a rate of the taxable gifts made by the donor during the calendar
 242 year set forth in the following schedule:

T135	Amount of Taxable Gifts	Rate of Tax
T136	Not over \$25,000	1%
T137	Over \$25,000	\$250, plus 2% of the excess
T138	but not over \$50,000	over \$25,000
T139	Over \$50,000	\$750, plus 3% of the excess
T140	but not over \$75,000	over \$50,000
T141	Over \$75,000	\$1,500, plus 4% of the excess
T142	but not over \$100,000	over \$75,000
T143	Over \$100,000	\$2,500, plus 5% of the excess
T144	but not over \$200,000	over \$100,000
T145	Over \$200,000	\$7,500, plus 6% of the excess
T146		over \$200,000

243 (2) With respect to the calendar years commencing January 1, 2001,
 244 January 1, 2002, January 1, 2003, and January 1, 2004, the tax imposed
 245 by section 12-640 for each such calendar year shall be at a rate of the
 246 taxable gifts made by the donor during the calendar year set forth in
 247 the following schedule:

T147	Amount of Taxable Gifts	Rate of Tax
T148	Over \$25,000	\$250, plus 2% of the excess
T149	but not over \$50,000	over \$25,000
T150	Over \$50,000	\$750, plus 3% of the excess
T151	but not over \$75,000	over \$50,000
T152	Over \$75,000	\$1,500, plus 4% of the excess
T153	but not over \$100,000	over \$75,000
T154	Over \$100,000	\$2,500, plus 5% of the excess
T155	but not over \$675,000	over \$100,000
T156	Over \$675,000	\$31,250, plus 6% of the excess
T157		over \$675,000

248 (3) With respect to Connecticut taxable gifts, as defined in section
 249 12-643, made by a donor during a calendar year commencing on or
 250 after January 1, 2005, but prior to January 1, 2007, including the
 251 aggregate amount of all Connecticut taxable gifts made by the donor
 252 during all calendar years commencing on or after January 1, 2005, but
 253 prior to January 1, 2007, the tax imposed by section 12-640 for the
 254 calendar year shall be at the rate set forth in the following schedule,
 255 with a credit allowed against such tax for any tax previously paid to
 256 this state pursuant to this subdivision:

T158	Amount of Taxable Gifts	Rate of Tax
T159	Not over \$2,000,000	None
T160	Over \$2,000,000	
T161	but not over \$2,100,000	5.085% of the excess over \$0
T162	Over \$2,100,000	\$106,800 plus 8% of the excess
T163	but not over \$2,600,000	over \$2,100,000
T164	Over \$2,600,000	\$146,800 plus 8.8% of the excess

T165	but not over \$3,100,000	over \$2,600,000
T166	Over \$3,100,000	\$190,800 plus 9.6% of the excess
T167	but not over \$3,600,000	over \$3,100,000
T168	Over \$3,600,000	\$238,800 plus 10.4% of the excess
T169	but not over \$4,100,000	over \$3,600,000
T170	Over \$4,100,000	\$290,800 plus 11.2% of the excess
T171	but not over \$5,100,000	over \$4,100,000
T172	Over \$5,100,000	\$402,800 plus 12% of the excess
T173	but not over \$6,100,000	over \$5,100,000
T174	Over \$6,100,000	\$522,800 plus 12.8% of the excess
T175	but not over \$7,100,000	over \$6,100,000
T176	Over \$7,100,000	\$650,800 plus 13.6% of the excess
T177	but not over \$8,100,000	over \$7,100,000
T178	Over \$8,100,000	\$786,800 plus 14.4% of the excess
T179	but not over \$9,100,000	over \$8,100,000
T180	Over \$9,100,000	\$930,800 plus 15.2% of the excess
T181	but not over \$10,100,000	over \$9,100,000
T182	Over \$10,100,000	\$1,082,800 plus 16% of the excess
T183		over \$10,100,000

257 (4) With respect to Connecticut taxable gifts, as defined in section
 258 12-643, made by a donor during a calendar year commencing on or
 259 after January 1, 2007, including the aggregate amount of all
 260 Connecticut taxable gifts made by the donor during all calendar years
 261 commencing on or after January 1, 2007, the tax imposed by section 12-
 262 640 for the calendar year shall be at the rate set forth in the following
 263 schedule, with a credit allowed against such tax for any tax previously
 264 paid to this state pursuant to this subdivision or subdivision (3) of this
 265 subsection:

T184	<u>Amount of Taxable Gifts</u>	<u>Rate of Tax</u>
T185	<u>Not over \$5,000,000</u>	<u>None</u>
T186	<u>Over \$5,000,000 but not over</u>	<u>12% of the excess over</u>
T187	<u>\$6,100,000</u>	<u>\$5,000,000</u>
T188	<u>Over \$6,100,000 but not over</u>	<u>\$132,000 plus 12.8% of the</u>
T189	<u>\$7,100,000</u>	<u>excess over \$6,100,000</u>
T190	<u>Over \$7,100,000 but not over</u>	<u>\$260,000 plus 13.6% of the</u>
T191	<u>\$8,100,000</u>	<u>excess over \$7,100,000</u>
T192	<u>Over \$8,100,000 but not over</u>	<u>\$396,000 plus 14.4% of the</u>
T193	<u>\$9,100,000</u>	<u>excess over \$8,100,000</u>
T194	<u>Over \$9,100,000 but not over</u>	<u>\$540,000 plus 15.2% of the</u>
T195	<u>\$10,100,000</u>	<u>excess over \$9,100,000</u>
T196	<u>Over \$10,100,000</u>	<u>\$692,000 plus 16.0% of the</u>
T197		<u>excess over \$10,100,000</u>

266 Sec. 9. Subdivision (1) of section 12-408 of the general statutes is
 267 repealed and the following is substituted in lieu thereof (*Effective July*
 268 *1, 2007*):

269 (1) For the privilege of making any sales, as defined in subdivision
 270 (2) of subsection (a) of section 12-407, at retail, in this state for a
 271 consideration, a tax is hereby imposed on all retailers at the rate of [six]
 272 four and one-half per cent of the gross receipts of any retailer from the
 273 sale of all tangible personal property sold at retail or from the
 274 rendering of any services constituting a sale in accordance with
 275 subdivision (2) of subsection (a) of section 12-407, except, in lieu of said
 276 rate of six per cent, (A) at a rate of twelve per cent with respect to each
 277 transfer of occupancy, from the total amount of rent received for such
 278 occupancy of any room or rooms in a hotel or lodging house for the
 279 first period not exceeding thirty consecutive calendar days, (B) with
 280 respect to the sale of a motor vehicle to any individual who is a
 281 member of the armed forces of the United States and is on full-time
 282 active duty in Connecticut and who is considered, under 50 App USC
 283 574, a resident of another state, or to any such individual and the
 284 spouse thereof, at a rate of four and one-half per cent of the gross
 285 receipts of any retailer from such sales, provided such retailer requires
 286 and maintains a declaration by such individual, prescribed as to form

287 by the commissioner and bearing notice to the effect that false
288 statements made in such declaration are punishable, or other evidence,
289 satisfactory to the commissioner, concerning the purchaser's state of
290 residence under 50 App USC 574, (C) (i) with respect to the sales of
291 computer and data processing services occurring on or after July 1,
292 1997, and prior to July 1, 1998, at the rate of five per cent, on or after
293 July 1, 1998, and prior to July 1, 1999, at the rate of four per cent, on or
294 after July 1, 1999, and prior to July 1, 2000, at the rate of three per cent,
295 on or after July 1, 2000, and prior to July 1, 2001, at the rate of two per
296 cent, on or after July 1, 2001, at the rate of one per cent, (ii) with respect
297 to sales of Internet access services, on and after July 1, 2001, such
298 services shall be exempt from such tax, (D) with respect to the sales of
299 labor that is otherwise taxable under subparagraph (C) or (G) of
300 subdivision (2) of subsection (a) of section 12-407 on existing vessels
301 and repair or maintenance services on vessels occurring on and after
302 July 1, 1999, such services shall be exempt from such tax, (E) with
303 respect to patient care services for which payment is received by the
304 hospital on or after July 1, 1999, and prior to July 1, 2001, at the rate of
305 five and three-fourths per cent and on and after July 1, 2001, such
306 services shall be exempt from such tax. The rate of tax imposed by this
307 chapter shall be applicable to all retail sales upon the effective date of
308 such rate, except that a new rate which represents an increase in the
309 rate applicable to the sale shall not apply to any sales transaction
310 wherein a binding sales contract without an escalator clause has been
311 entered into prior to the effective date of the new rate and delivery is
312 made within ninety days after the effective date of the new rate. For
313 the purposes of payment of the tax imposed under this section, any
314 retailer of services taxable under subparagraph (I) of subdivision (2) of
315 subsection (a) of section 12-407, who computes taxable income, for
316 purposes of taxation under the Internal Revenue Code of 1986, or any
317 subsequent corresponding internal revenue code of the United States,
318 as from time to time amended, on an accounting basis which
319 recognizes only cash or other valuable consideration actually received
320 as income and who is liable for such tax only due to the rendering of
321 such services may make payments related to such tax for the period

322 during which such income is received, without penalty or interest,
323 without regard to when such service is rendered.

324 Sec. 10. Subdivision (3) of section 12-412 of the general statutes is
325 repealed and the following is substituted in lieu thereof (*Effective July*
326 *1, 2007*):

327 (3) (A) The sale, furnishing or service of gas, including bottled gas,
328 and electricity when delivered to consumers through mains, lines,
329 pipes or bottles for use [(i)] in any residential dwelling. [or (ii) directly
330 in agricultural production, fabrication of a finished product to be sold
331 or an industrial manufacturing plant, provided the exemption under
332 this subdivision (ii) shall only be allowed with respect to a metered
333 building, location or premise at which not less than seventy-five per
334 cent of the gas, including bottled gas, or electricity consumed at such
335 metered building, location or premise is used for the purpose of such
336 production, fabrication or manufacturing.] Bottled gas as used in this
337 subsection means L.P. (propane) gas.

338 (B) The sale or furnishing of telephone service and community
339 antenna television and cable service, provided the exemption for
340 services described in this subparagraph shall not be applicable to any
341 such service rendered on or after January 1, 1990.

342 (C) The sale, furnishing or service of water, steam and telegraph
343 when delivered to residential consumers through mains, lines, pipes or
344 bottles.

345 (D) The sale or furnishing of electricity, not subject to the exemption
346 under subparagraph (A) of this subsection, with respect to that portion
347 of the charges applicable to such electricity for any month of service
348 which is not in excess of one hundred fifty dollars.

349 (E) The sale, furnishing or service of gas, water, steam or electricity
350 for use directly in the furnishing of gas, water, steam or electricity
351 delivered to residential consumers through mains, lines or pipes.

352 Sec. 11. (NEW) (*Effective from passage*) The Commissioner of Revenue

353 Services shall enter into the Streamlined Sales and Use Tax Agreement
354 with one or more states to simplify and modernize sales and use tax
355 administration in order to substantially reduce the burden of tax
356 compliance for all sellers and for all types of commerce. In furtherance
357 of the agreement, the commissioner may act jointly with other states
358 that are members of the agreement to establish standards for
359 certification of a certified service provider and certified automated
360 system and to establish performance standards for multistate sellers.
361 Other actions authorized by this section include, but are not limited to,
362 the adoption of regulations, in accordance with the provisions of
363 chapter 54 of the general statutes, and the joint procurement, with
364 other member states, of goods and services in furtherance of the
365 cooperative agreement. The commissioner, or the commissioner's
366 designee, may represent this state before the other states that are
367 signatories to the agreement.

368 Sec. 12. (NEW) (*Effective from passage*) (a) The Commissioner of
369 Revenue Services shall not enter into the Streamlined Sales and Use
370 Tax Agreement unless the agreement requires each state to:

371 (1) Achieve over time more uniform state rates through limiting the
372 number of state rates, the application of maximums on the amount of
373 state tax that is due on a transaction and the application of thresholds
374 on the application of state tax.

375 (2) Establish uniform standards for (A) the sourcing of transactions
376 to taxing jurisdictions, (B) the administration of exempt sales, (C) the
377 allowances a seller can take for bad debts, and (D) sales and use tax
378 returns and remittances.

379 (3) Develop and adopt uniform definitions of sales and use tax
380 terms.

381 (4) Participate in a central, electronic registration system that allows
382 a seller to register to collect and remit sales and use taxes for all
383 signatory states.

384 (5) Agree that registration with the central registration system and
385 the collection of sales and use taxes in the signatory states will not be
386 used as a factor in determining whether the seller has nexus with a
387 state for any tax.

388 (6) Reduce the burdens of complying with local sales and use taxes
389 through the following: (A) Restricting variances between the state and
390 local tax bases, (B) requiring states to administer any sales and use
391 taxes levied by local jurisdictions within the state so that sellers
392 collecting and remitting these taxes will not have to register or file
393 returns with, remit funds to, or be subject to independent audits from
394 local taxing jurisdictions, (C) restricting the frequency of changes in the
395 local sales and use tax rates and setting effective dates for the
396 application of local jurisdictional boundary changes to local sales and
397 use taxes, and (D) providing notice of changes in local sales and use
398 tax rates.

399 (7) Outline any monetary allowances that are to be provided by the
400 states to sellers or certified service providers in exchange for collecting
401 sales and use taxes.

402 (8) Certify compliance with the terms of the agreement prior to
403 joining and to maintain compliance, under the laws of the member
404 state, with all provisions of the agreement while a member.

405 (9) Require each state to adopt a uniform policy for certified service
406 providers that protects the privacy of consumers and maintains the
407 confidentiality of tax information.

408 (10) Appoint an advisory council of private sector representatives
409 and an advisory council of nonmember state representatives to consult
410 with the administration of the agreement.

411 (b) As used in this section, "certified service provider" means an
412 agent certified jointly by the states that are signatories to the
413 agreement to perform all of the seller's sales tax functions.

414 Sec. 13. (NEW) *(Effective July 1, 2007, and applicable to sales occurring*

415 on or after July 1, 2007) (a) The Commissioner of Revenue Services shall
416 segregate one-half per cent of the sales tax revenue that accrues from
417 sales within the meaning of subdivision (2) of subsection (a) of section
418 12-407 of the general statutes, as amended by this act.

419 (b) The funds segregated under subsection (a) of this section shall be
420 allocated to the State Treasurer for deposit in the General Fund. Upon
421 deposit in the General Fund, such funds shall be credited to the
422 municipal cooperation account established in section 14 of this act.

423 Sec. 14. (NEW) (*Effective July 1, 2007*) There is established, within the
424 General Fund, a separate, nonlapsing account to be known as the
425 "municipal cooperation account". The account shall contain any
426 moneys required by law to be deposited in the account. The moneys in
427 said account shall be available to the Secretary of the Office of Policy
428 and Management for grants under section 15 of this act.

429 Sec. 15. (NEW) (*Effective July 1, 2007*) (a) As used in this section,
430 "municipal intergovernmental agency" means a regional council of
431 elected officials or regional council of governments pursuant to
432 chapter 50 of the general statutes.

433 (b) There is established a state revenue sharing program which shall
434 be administered by the Office of Policy and Management. On or before
435 January 1, 2008, and June 1, 2008, and semiannually thereafter, each
436 municipal intergovernmental agency shall be paid by the state a grant
437 equal to one-half the amount determined in accordance with the
438 provisions of subsection (c) of this section. Funds received pursuant to
439 this section shall be expended by the municipal intergovernmental
440 agency for purposes of general revenue sharing grants to member
441 municipalities for specific initiatives undertaken jointly by two or more
442 member municipalities to consolidate services and promote
443 cooperation between municipalities to achieve economies of scale and
444 lower costs, except costs of education. Grants may be used for capital
445 improvements or other costs incurred by municipalities in
446 implementing joint initiatives. Such grants shall be disbursed in
447 accordance with an annual allocation plan approved by the municipal

448 intergovernmental agency after a public hearing.

449 (c) Grants made to municipal intergovernmental agencies pursuant
450 to subsection (b) of this section shall be equal to the amount segregated
451 pursuant to section 14 of this act, multiplied by the ratio that the total
452 population, as defined in section 10-261 of the general statutes, of all
453 member municipalities of a municipal intergovernmental agency bears
454 to the total population of all municipalities in the state.

455 Sec. 16. (NEW) (*Effective October 1, 2007*) (a) As used in this section,
456 "budget limit" means the amount that equals four per cent of the total
457 value of taxable real and personal property in a municipality on
458 October first in the preceding year.

459 (b) The budget authority of any municipality shall not authorize a
460 total annual budget that exceeds the budget limit unless (1) the budget
461 authority approves the budget by a two-thirds majority, and (2) the
462 budget is approved by the electors of the municipality at a
463 referendum.

464 Sec. 17. Subdivisions (5) and (6) of section 12-410 of the general
465 statutes are repealed and the following is substituted in lieu thereof
466 (*Effective July 1, 2007*):

467 (5) [(A)] For the purpose of the proper administration of this chapter
468 and to prevent evasion of the sales tax, a sale of any service described
469 in subparagraph (I) of subdivision (2) of subsection (a) of section 12-
470 407 shall be considered a sale for resale only if the service to be resold
471 is an integral, inseparable component part of a service described in
472 said subparagraph (I) which is to be subsequently sold by the
473 purchaser to an ultimate consumer. The purchaser of the service for
474 resale shall maintain, in such form as the commissioner requires,
475 records which substantiate: (i) From whom the service was purchased
476 and to whom the service was sold, (ii) the purchase price of the service,
477 and (iii) the nature of the service to demonstrate that the services were
478 an integral, inseparable component part of a service described in
479 subparagraph (I) of subdivision (2) of subsection (a) of section 12-407

480 which was subsequently sold to a consumer.

481 [(B) Notwithstanding the provisions of subparagraph (A) of this
482 subdivision, no sale of a service described in subparagraph (I) of
483 subdivision (2) of subsection (a) of section 12-407 by a seller shall be
484 considered a sale for resale if such service is to be subsequently sold by
485 the purchaser to an ultimate consumer that is affiliated with the
486 purchaser in the manner described in subparagraph (A) of subdivision
487 (62) of subsection (a) of section 12-412.]

488 [(6) For the purpose of the proper administration of this chapter and
489 to prevent evasion of the sales tax, no sale of any service by a seller
490 shall be considered a sale for resale if such service is to be
491 subsequently sold by the purchaser, without change, to an ultimate
492 consumer that is affiliated with the purchaser in the manner described
493 in subparagraph (A) of subdivision (62) of subsection (a) of section 12-
494 412.]

495 Sec. 18 Subdivisions (14) and (15) of section 12-411 of the general
496 statutes are repealed and the following is substituted in lieu thereof
497 (*Effective July 1, 2007*):

498 (14) [(A)] For the purpose of the proper administration of this
499 chapter and to prevent evasion of the use tax, a purchase of any service
500 described in subparagraph (I) of subdivision (2) of subsection (a) of
501 section 12-407 shall be considered a purchase for resale only if the
502 service to be resold is an integral, inseparable component part of a
503 service described in said subparagraph (I) which is to be subsequently
504 sold by the purchaser to an ultimate consumer. The purchaser of the
505 service for resale shall maintain, in such form as the commissioner
506 requires, records which substantiate: (i) From whom the service was
507 purchased and to whom the service was sold; (ii) the purchase price of
508 the service; and (iii) the nature of the service to demonstrate that the
509 service was an integral, inseparable component part of a service
510 described in subparagraph (I) of subdivision (2) of subsection (a) of
511 section 12-407 which was subsequently sold to a consumer.

512 [(B) Notwithstanding the provisions of subparagraph (A) of this
513 subdivision, no purchase of a service described in subparagraph (I) of
514 subdivision (2) of subsection (a) of section 12-407 by a purchaser shall
515 be considered a purchase for resale if such service is to be
516 subsequently sold by the purchaser to an ultimate consumer that is
517 affiliated with the purchaser in the manner described in subparagraph
518 (A) of subdivision (62) of subsection (a) of section 12-412.]

519 [(15) For the purpose of the proper administration of this chapter
520 and to prevent evasion of the use tax, no purchase of any service by a
521 purchaser shall be considered a purchase for resale if such service is to
522 be subsequently sold by the purchaser, without change, to an ultimate
523 consumer that is affiliated with the purchaser in the manner described
524 in subparagraph (A) of subdivision (62) of subsection (a) of section 12-
525 412.]

526 Sec. 19. Section 22a-9 of the general statutes is repealed and the
527 following is substituted in lieu thereof (*Effective July 1, 2007*):

528 The commissioner shall act as the official agent of the state in all
529 matters affecting the purposes of this title and sections 2-20a, 5-238a,
530 subsection (c) of section 7-131a, sections 7-131e, 7-131f, subsection (a)
531 of section 7-131g, sections 7-131i, 7-131l, subsection (a) of section 10-
532 409, subdivisions (51) and (52) of section 12-81, [subdivisions (21) and
533 (22) of section 12-412,] subsections (a) and (b) of section 13a-94,
534 sections 13a-142a, 13b-56, 13b-57, 14-100b, 14-164c, chapter 268,
535 sections 16a-103, 22-91c, 22-91e, subsections (b) and (c) of section 22a-
536 148, section 22a-150, subdivisions (2) and (3) of section 22a-151,
537 sections 22a-153, 22a-154, 22a-155, 22a-156, 22a-158, chapter 446c,
538 sections 22a-295, 22a-300, 22a-308, 22a-416, chapters 446h to 446k,
539 inclusive, chapters 447 and 448, sections 23-35, 23-37a, 23-41, chapter
540 462, section 25-34, chapter 477, subsection (b) of section 25-128,
541 subsection (a) of section 25-131, chapters 490 and 491 and sections 26-
542 257, 26-297, 26-303 and 47-46a, under any federal laws now or
543 hereafter to be enacted and as the official agent of any municipality,
544 district, region or authority or other recognized legal entity in

545 connection with the grant or advance of any federal or other funds or
 546 credits to the state or through the state, to its political subdivisions.

547 Sec. 20. Subdivisions (9), (11), (14), (18), (20) to (23), inclusive, (27),
 548 (29), (30), (31), (34), (36), (40), (41), (43) to (45), inclusive, (48) to (50),
 549 inclusive, (52), (55), (58), (60), (62), (64) to (74), inclusive, (76) to (78),
 550 inclusive, (81) to (84), inclusive, (86), (88) to (106), inclusive, and (108)
 551 to (116), inclusive, of section 12-412 of the general statutes and sections
 552 12-704c and 12-746 of the general statutes are repealed. (*Effective July 1,*
 553 *2007*)

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage and applicable to taxable years commencing on or after January 1, 2007</i>	12-700(a)
Sec. 2	<i>from passage and applicable to taxable years commencing on or after January 1, 2007</i>	New section
Sec. 3	<i>July 1, 2007, and applicable to income years commencing on or after January 1, 2007</i>	12-219(a)
Sec. 4	<i>July 1, 2007, and applicable to income years commencing on or after January 1, 2007</i>	12-219(d)
Sec. 5	<i>July 1, 2007, and applicable to income years commencing on or after January 1, 2007</i>	12-223c
Sec. 6	<i>July 1, 2007, and applicable to income years commencing on or after January 1, 2007</i>	12-217ee(a)

Sec. 7	<i>from passage and applicable to estates of decedents who die on or after January 1, 2007</i>	12-391(g)
Sec. 8	<i>from passage and applicable to gifts made after January 1, 2007</i>	12-642(a)
Sec. 9	<i>July 1, 2007</i>	12-408(1)
Sec. 10	<i>July 1, 2007</i>	12-412(3)
Sec. 11	<i>from passage</i>	New section
Sec. 12	<i>from passage</i>	New section
Sec. 13	<i>July 1, 2007, and applicable to sales occurring on or after July 1, 2007</i>	New section
Sec. 14	<i>July 1, 2007</i>	New section
Sec. 15	<i>July 1, 2007</i>	New section
Sec. 16	<i>October 1, 2007</i>	New section
Sec. 17	<i>July 1, 2007</i>	12-410(5) and (6)
Sec. 18	<i>July 1, 2007</i>	New section
Sec. 19	<i>July 1, 2007</i>	22a-9
Sec. 20	<i>July 1, 2007</i>	Repealer section

PD **Joint Favorable**

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 08 \$	FY 09 \$
Policy & Mgmt., Off.	GF - Cost	70,000	70,000
Department of Revenue Services	GF - Revenue Impact	141,400,000	18,000,000
Department of Revenue Services	TF - Revenue Impact	(18,000,000)	(18,000,000)
Comptroller Misc. Accounts (Fringe Benefits)	GF - Cost	16,770	39,130

Note: GF=General Fund; TF=Transportation Fund

Municipal Impact:

Municipalities	Effect	FY 08 \$	FY 09 \$
All Municipalities	Revenue Gain	16,000,000	17,000,000
All Municipalities	See Below	See Below	See Below

Explanation

General Fund

The table below presents the expected fiscal impact to the General Fund.

Bill Section	Description	General Fund Gain/(Loss) (Millions)	
		FY 08	FY 09
1	Personal Income Tax Rate - 5.0% to 5.25% & 5.5%	307.4 ⁽¹⁾	212.0
2	Earned Income Tax Credit - 20% of Federal EITC	(61.0)	(61.0)
20	Repeal Property Tax Credit	340.0	349.0
9	Sales and Use Tax Rate - 6.0% to 4.5%	(890.0)	(930.0)
10, 17 - 20	Sales and Use Tax Exemptions Repealed (calculated at 4.5%)	506.0	528.0
13 & 14	Sales and Use Tax Earmark to Municipalities	(16.0)	(17.0)
3 -- 6	Corporate Minimum Tax - \$250 to \$400	8.0	8.0
7 & 8	Estate and Gift Tax (Income 2007)	(53.0)	(71.0)

Total General Fund Impact	141.4	18.0
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(1) Includes 18 months of revenue.

Transportation Fund

The bill is anticipated to result in an annual revenue loss of \$18 million per year to the Transportation Fund beginning in FY 08. The sales tax revenue generated from sales of automobiles between private parties (non-dealer sales) is deposited into the Transportation Fund

§§ 11 & 12 – Streamlined Sales and Use Tax Agreement

The bill requires the Department of Revenue Services to join the multistate Streamlined Sales and Use Tax Agreement. In order to apply for full membership status several outstanding policy issues must be addressed. Therefore, the fiscal impact of Connecticut joining the agreement will be dependent on how these issues are addressed by the legislature.

§§ 13 – 15 – Sales Tax Revenue Intercept and Revenue Sharing Program

The bill intercepts 0.5% of the state's sales tax revenue to be deposited in the Municipal Cooperation Account, a separate non-lapsing account, within the General Fund for a revenue sharing grant program administered by the Office of Policy and Management (OPM). The intercept will result in a revenue loss to the General Fund and a revenue gain to municipalities that are members of regional councils of governments and regional councils of elected officials, of \$16 million in FY 08 and \$17 million in FY 09.

It is anticipated that the OPM will require one full time position with salary and associated other expenses of \$70,000 annually¹ to

¹ The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The estimated first year fringe benefit rate for a new employee as a percentage of average salary is 25.8%, effective July 1, 2006. The first year fringe benefit costs for new positions do not

administer the program. The bill requires that all funds intercepted for the Municipal Cooperation Account be used for grants, thus there are no funds provided for OPM's administrative costs.

§§ 16 – Municipal Budget Limit

The bill limits annual municipal budgets to no more than 4% of the value of their total grand list from the preceding year. This provision is not expected to have a fiscal impact because the allowable limit is significantly higher than historical budget increases.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

include pension costs. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS 2006-07 fringe benefit rate is 34.4%, which when combined with the non pension fringe benefit rate totals 60.2%.

OLR BILL ANALYSIS**SB 1385*****AN ACT CONCERNING PROPERTY TAX REFORM.*****SUMMARY:**

This bill increases state income tax rates on higher-income taxpayers, eliminates the property tax credit against the tax, and establishes a state earned income tax credit equal to 20% of the federal credit. It reduces the sales and use tax rate from 6% to 4.5%; eliminates many sales tax exemptions; and, subject to certain conditions, requires the state to join the multistate Streamlined Sales and Use Tax Agreement. It increases the minimum corporation tax from \$250 to \$400. It eliminates the estate and gift tax on estates and gifts valued at between \$2 million and \$5 million and exempts the first \$5 million of larger estates and gifts from the tax.

It allocates 0.5% of the state's annual sales and use tax revenue for a special municipal cooperation account and requires the Office of Policy and Management (OPM) secretary to distribute the money in semiannual grants to regional councils of governments and regional councils of elected officials, but not regional planning agencies. These agencies must in turn distribute the money to groups of two or more of their member municipalities that cooperate to consolidate services.

Finally, the bill limits annual municipal budgets to no more than 4% of the value of their grand lists. A municipality may exceed the limit only by a two-thirds vote of the municipal budget authority and voter approval in a referendum.

The bill makes conforming and technical changes and repeals an obsolete income tax rebate program from 1998.

EFFECTIVE DATE: Various, see below.

income tax

Increased Rates (§ 1)

The bill increases the number of personal income tax brackets from two to four by adding two new brackets for taxable incomes over \$250,000 for joint filers, \$133,000 for singles, \$198,000 for heads of household, and \$125,000 for couples filing separately. It increases the tax rates on these higher-income brackets from a flat 5.0% to 5.25% and 5.5% for the 2007 tax year and after. In addition, instead of taxing married couples filing separately at the same rates as singles, the bill establishes a separate income tax schedule for such couples.

Table 1 shows tax rates and brackets under the current law and the bill.

TABLE 1: CURRENT AND PROPOSED TAX RATES AND BRACKETS

TAX RATES		CT. TAXABLE INCOME (INCOME EXCEEDING APPLICABLE EXEMPTION)			
		<i>Married Filing Jointly or Surviving Spouse</i>		<i>Single</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	250,000	10,000	133,000
	5.25%	250,000	750,000	133,000	398,500
	5.5%	Over \$750,000		Over \$398,500	
TAX RATES		<i>Head of Household</i>		<i>Married Filing Separately</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$16,000	\$0	\$16,000
5.0%	5.0%	16,000	198,000	16,000	125,000
	5.25%	198,000	594,000	125,000	375,000
	5.5%	Over \$594,00		Over \$375,000	

The bill also increases the flat income tax rate for trusts and estates from 5% to 5.5% of Connecticut taxable income.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2007.

Income Tax Credit for Property Taxes (§ 20)

The bill eliminates the property tax credit against the income tax. Under current law, the maximum property tax credit is \$500. The maximum drops by 10% for each \$10,000 of a taxpayer's Connecticut adjusted gross income (CT AGI) (10% for each \$5,000 for married couples filing separately) above specified income levels. Taxpayers receive no credit if their CT AGI exceeds \$190,500 for joint filers, \$145,500 for single filers, \$168,500 for heads of household, and \$92,250 for married couples filing separately.

EFFECTIVE DATE: July 1, 2007

Earned Income Tax Credit (§ 2)

The bill gives people who qualify for, and claim, the federal earned income tax credit a refundable credit against their state income tax liability equal to 20% of their federal credit for the same income year.

If the credit amount exceeds the taxpayer's state income tax liability for the year, the bill requires the revenue services commissioner to refund the difference to the taxpayer. Credit refunds must be treated as other income tax refunds, except that they are not subject to the 0.66% monthly interest payable on late tax refunds.

Under federal law and this bill, people who work and earn incomes below certain levels qualify for income tax credits. Credit amounts vary according to a taxpayer's income and the number of children in the family. Income limits and credit amounts are adjusted annually for inflation (26 USCA § 32).

For the 2006 income year, taxpayers receive a federal credit if they have (1) no children and their incomes are less than \$12,120 (\$14,120 for joint filers); (2) one child, and an income under \$32,001 (\$34,001 for joint filers); and (3) two or more children, and an income under \$36,348 (\$38,348 for joint filers). A taxpayer must have no more than \$2,800 in investment income and must file as married filing jointly, head of household, qualifying widow(er), or single.

If a 20% credit applied for 2006, the maximum state credit would be

\$82 for a taxpayer with no children and an annual earned income of \$5,350 to \$6,750 (\$8,750 for joint filers); \$549 for a taxpayer with one child and an earned income of \$8,050 to \$14,850 (\$16,850 for joint filers); and \$907 for a taxpayer with two or more children and an earned income of \$11,300 to \$14,850 (\$16,850 for joint filers).

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2007.

SALES & use TAX

Tax Rate and Exemptions (§§ 9, 10, 19, & 20)

The bill reduces the sales and use tax rate from 6% to 4.5% and extends the tax to many currently exempt goods and services. Table 2 lists the exemptions the bill eliminates, by category.

TABLE 2: SALES AND USE TAX EXEMPTIONS ELIMINATED

STATUTE	MEALS & FOOD
12-412 (9)	Meals, candy, confectionery, and beverages sold in school and college cafeterias, dining halls, dormitories, and similar places, or sold to patients, residents, or care recipients in hospitals, residential care homes, nursing homes, assisted living facilities, senior centers, day care centers, convalescent homes, and rest homes
12-412 (27)	Meals, candy, gum, cake, soda, and similar food and beverages sold through coin-operated vending machines
12-412 (96)	Vegetable seeds
STATUTE	MEDICAL & AIDS FOR THE DISABLED
12-412 (41)	Services to determine the human health consequences of consuming or using any product, substance, or element
12-412 (48)	Nonprescription drugs and medicines
12-412 (111)	Specially formulated gum, inhalants, or similar products designed to help someone stop smoking
STATUTE	CLOTHING-RELATED
12-412 (52)	Cloth or fabric for noncommercial home sewing of clothes
12-412 (91)	Protective clothing or equipment an employee wears or uses at work
12-412 (97)	Yarn for noncommercial use
12-412 (105)	Shoe repairs
STATUTE	MISCELLANEOUS ITEMS
12-412 (23)	U.S. and Connecticut flags
12-412 (27)	Items sold from a vending machine for 50¢ or less
12-412 (101)	Safes, lock boxes, trigger and barrel locks, and other devices for enhancing home firearm safety
12-412 (102)	Bicycle helmets
12-412 (108)	Child car seats
12-412 (109)	College and private occupational school textbooks and related

	workbooks
12-412 (114)	Newspapers
12-412 (114)	Magazines sold by subscription
STATUTE	UTILITIES
12-412 (3) (A)	Gas or electricity for direct use in (a) agricultural production, (b) making a finished product for sale, or (c) a manufacturing plant
12-412 (3) (C)	When sold to nonresidential customers, water, steam, or telegraph service provided through mains, lines, pipes, or bottles
12-412 (3) (E)	When sold to nonresidential customers, gas, water, steam, or electricity for use in furnishing these commodities to customers through mains, line, or pipes
12-412 (18)	Materials, tools, and fuel to be used directly to furnish (a) power to an industrial manufacturing plant or (b) gas, water, steam, or electricity through mains, lines, or pipes
12-412 (90)	Items or services used by a water company in maintaining, operating, managing, or controlling a well, water body, or distributing plant or system to supply water to at least 50 consumers
STATUTE	MOTOR VEHICLES, AIRCRAFT & BOATS
12-412 (20)	Flyable aircraft
12-412 (49)	Property tax payments made under motor vehicle leases
12-412 (60)	Motor vehicles and boats bought by nonresidents for registration outside the state
12-412 (67)	New motor vehicles powered exclusively by natural gas, hydrogen, electricity, or, under certain conditions, propane
12-412 (68)	Equipment to covert vehicles to use clean alternative fuels either exclusively or with other fuels
12-412 (69)	Equipment for compressed natural gas filling or electric recharging stations for alternative fuel vehicles
12-412 (76)	Aircraft repair or replacement parts
12-412 (77)	Aircraft repair services
12-412 (99)	Aircraft with a maximum certificated weight of 6,000 pounds or more
12-412 (115)	Passenger cars using hybrid technology with EPA-estimated highway mileage ratings of 40 miles per gallon or more
STATUTE	BUSINESS, COMMERCIAL FARMING & FISHING
12-412 (14)	(a) Nonreturnable containers and returnable dairy product containers sold empty to those who put contents in them, (b) containers sold with tax-exempt contents, and (c) returnable containers sold with the contents or resold for refilling
12-412 (18)	Materials, rope, nets, tools, and fuel sold to become part of items sold or used directly in (a) the fishing industry or (b) an industrial plant to make finished products for sale
12-412 (21) & (22)	Items or services used to operate waste treatment or air pollution control facilities
12-412 (30)	Commodities in forms traded on any market exchange or board of trade and not converted to the purchaser's use
12-412 (31)	Printed material manufactured in Connecticut for use outside the state
12-412 (34)	Machinery used in manufacturing production processes
12-412 (40)	Commercial fishing boats and machinery and equipment for use in them
12-412 (43)	Replacement parts for machinery sold to a business located in an

	enterprise zone
12-412 (44) (A)	Taped or filmed radio or t.v. programs and materials that become components for such programs, if the programs (a) will be broadcast to the public by a radio or t.v. station or (b) used for accredited medical or surgical training
12-412 (44) (B)	Motion picture or video production or sound recording equipment to become part of master tapes, records, or videotapes used for commercial entertainment, advertising, or educational purposes
12-412 (44) (C)	Equipment, including antennas, that radio or t.v. stations use to broadcast programs to the general public
12-412 (45)	Antique or rare coins, gold or silver bullion, or any nation's gold or silver coins traded according to their value as precious metal for more than \$1,000
12-412 (50)	Lease or rental of movies for display by a theater owner or operator
12-412 (55) (A)	Property used by funeral homes for preparing and conducting burials or cremations, up to \$2,500 per funeral
12-412 (55) (B)	Caskets for burial or cremation
12-412 (64)	Equipment for producing or cleaning computer discs and for maintaining climate-controls need for those processes
12-412 (65)	Metal casting foundry purchases of molds, dies, patterns, and sand handling equipment
12-412 (66)	Pattern shop sales of molds, dies, and patterns to metal casting foundries or their customers for use in foundries, and pattern shop purchases in connection with such sales
12-412 (70)	Commercial trucks, truck tractors, tractors and semi-trailers, and vehicles used in combination with them that (a) have gross vehicle weight ratings over 26,000 and (b) are operated exclusively in carrying interstate freight for at least one year after purchase
12-412 (71)	Commercial printing machinery, equipment, tools, materials, and supplies
12-412 (72)	Machinery, equipment, tools, materials, and supplies for typesetting, color separation, finished copy, and similar products
12-412 (73)	Component parts for manufacturing machinery
12-412 (74)	Computer and data processing services rendered under certain specified circumstances and during specified time periods
12-412 (78)	Materials, tools, fuel, machinery, and equipment for an aircraft manufacturing facility
12-412 (81)	Machinery, equipment, tools, materials for fabricating optical lenses
12-412 (82) & (83)	Commercial motor vehicles or motor buses when, for at least one year after purchase, a minimum of 75% of their revenue comes from out-of-state or interstate trips
12-412 (88)	Machinery, equipment, tools, and materials exclusively for processing photographic film and paper
12-412 (89)	Machinery, equipment, tools, materials, supplies, and fuel used directly in the biotechnology industry
12-412 (92)	Items or services used to operate a CRRRA project
12-412 (95)	Items or services for operating a DEP-certified waste-to-energy facility
12-412 (103)	Railroad machinery, equipment, and supplies used exclusively for carrying freight

12-412 (104) (A)	Calibration services for manufacturing production machinery, equipment, or instrumentation
12-412 (104) (B)	Compliance practices and services associated with quality management and quality assurance standards created by the International Organization of Standards
12-412 (112)	Telecommunications, high-speed data transmission, and broadband Internet services sold to telecommunications or cable t.v. companies
12-412 (113)	Materials, tools, fuel, machinery, and equipment used in a fuel cell manufacturing facility
STATUTE	PUBLIC, NONPROFIT & CHARITABLE ENTITIES
12-412 (29)	Items used in developing, rehabilitating, renovating, repairing, or operating low- and moderate-income housing
12-412 (84)	Goods and services sold to the University of Connecticut Educational Properties, Inc. for the Connecticut Technology Park
12-412 (93)	Items or services sold to tourism districts
12-412 (94)	Items or services sold by nonprofit organizations at no more than five one-day bazaars, fairs, picnics, tag sales, or similar events during a single year
12-412 (98)	Items sold by historical societies
STATUTE	MISCELLANEOUS SERVICES
12-412 (11)	Professional, insurance, or personal service transactions which involve sales as inconsequential elements and for which there is no separate charge
12-412 (36)	Motor vehicle driving services performed outside Connecticut
12-412 (58)	Personnel, management, or research services when both the seller and recipient are participating in a joint venture for research and new product development
12-412 (86)	Services provided by one affiliate to another when both are participating in a community economic development program established under § 8-240k
12-412 (100)	Services used to develop, build, rehabilitate, renovate, or repair low- and moderate-income housing in areas designed by the federal Department of Housing and Urban Development as Qualified Census Tracts or Difficult Development Areas
12-412 (106)	"Call Before You Dig" services
12-412 (116)	Marine vessel brokerage services

The bill also eliminates an obsolete exemption for passenger cars with Environmental Protection Agency mileage ratings of at least 50 miles per gallon. The exemption expired on July 1, 2002.

EFFECTIVE DATE: July 1, 2007

Sales and Sales for Resale Between Affiliated Companies (§§ 17, 18, & 20)

The bill imposes sales and use tax on currently exempt sales of

certain services, such as computer and data processing, management, advertising, maintenance, and public relations services; telecommunications service; and cable TV service between affiliated companies. At the same time, it expands an existing exemption for a transaction involving a company's purchase of such services for resale to its affiliate. For purposes of both types of transactions, companies are considered affiliates when one owns a controlling interest in the other or the same parent company owns a controlling interest in both.

By law, sales of otherwise taxable services are exempt from sales and use tax if they are an integral, inseparable component of a service that the purchaser will resell to an ultimate consumer. These transactions are called "sales for resale." The bill exempts sales of (1) specifically enumerated services, such as computer and data processing, management, advertising, maintenance, and public relations services, to a purchaser that will resell them in any form to an affiliate and (2) all other taxable services, such as telecommunications and cable TV service, to a purchaser that will resell them, unchanged, to an affiliate. Under current law, such sales are taxable.

EFFECTIVE DATE: July 1, 2007

Streamlined Sales and Use Tax Agreement (§§ 11 & 12)

The bill requires the revenue services commissioner to join the multistate Streamlined Sales and Use Tax Agreement (SSUTA-see BACKGROUND). It authorizes her to act jointly with other member states to further the agreement by establishing certification standards for a "certified service provider" and "certified automated system" and performance standards for multistate sellers. The bill defines a certified service provider as the agent certified jointly by SSUTA member states to perform all of a seller's sales tax functions. (It does not define "certified automated system.") The bill also authorizes the commissioner to take other actions to further the SSUTA, including adopting regulations and procuring goods and services jointly with other member states. It authorizes the commissioner or her designee to represent Connecticut before other member states.

The bill bars the commissioner from joining the SSUTA if it does not require each member state to:

1. achieve more uniform state rates (presumably sales and use tax rates) by limiting the number of rates and applying thresholds and maximums on the application and amount of state taxes on a transaction;
2. establish uniform standards for (a) sourcing transactions (i.e., determining which taxing authority has jurisdiction over a transaction), (b) exempt sales, (c) seller allowances for bad debts, and (d) tax returns and remittances;
3. develop and adopt uniform sales tax definitions;
4. participate in a centralized electronic registration system allowing a seller to register and collect sales taxes for all member states;
5. agree that the state will not use participation in the system as a factor in determining whether a seller has sales tax nexus in the state (a seller with nexus to a particular jurisdiction must collect and remit its sales tax on taxable sales);
6. reduce the burden of complying with local sales and use taxes, including (a) restricting differences between state and local systems, (b) requiring the state to administer local sales and use taxes, (c) limiting how often local sales tax rates and jurisdictional boundaries change, and (d) giving notice of local sales tax rate changes;
7. outline any monetary allowances states will provide to sellers or certified service providers in exchange for collecting sales taxes;
8. certify compliance with the SSUTA before joining and maintain compliance while it remains a member;
9. adopt a uniform policy for certified service providers that

protects consumer privacy and tax confidentiality; and

10. appoint advisory councils of private-sector representatives and nonmember states to consult with the agreement's administration.

minimum corporation tax (§§ 3-6)

The bill increases the minimum corporation tax from \$250 to \$400 per year. It makes conforming changes to (1) require financial service companies and each corporation included in a combined return, including those whose tax is computed and paid on a combined basis, to pay at least the \$400 minimum and (2) increase the amount of the minimum tax payment that is disregarded in determining whether a company is eligible for the research and development tax credit buy-back program.

EFFECTIVE DATE: July 1, 2007 and applicable to income years starting on or after January 1, 2007.

estate and gift tax (§§ 7 & 8)

The bill (1) raises the threshold for a taxable estate or gift under Connecticut's combined estate and gift tax from \$2 million to \$5 million and (2) exempts the first \$5 million of larger gifts and estates from the tax. Under current law, there is no tax on an estate or gift valued at \$2 million or less, but the full value of an estate or gift that exceeds \$2 million is taxable. The bill also increases the tax rate on the first \$100,000 of an estate or gift over \$5 million from 11.2% to 12% (see Table 3).

TABLE 3: CURRENT AND PROPOSED ESTATE AND GIFT TAXES

<i>CURRENT LAW</i>				<i>THE BILL</i>			
VALUE OF GIFT OR ESTATE		TAX (Add cols. C & D)		VALUE OF GIFT OR ESTATE		TAX (Add cols. H & I) (applicable for deaths and gifts made on or after January 1, 2006)	
<u>Col. A:</u>	<u>Col. B:</u>	<u>Col. C:</u>	<u>Col.</u>	<u>Col. E:</u>	<u>Col. F:</u>	<u>Col.H:</u>	<u>Col. I:</u>

Over	But not over	Tax on Col. A	D: Tax Rate on excess over Col. A	Over	But Not Over	Tax on Col. E	Tax Rate on excess over Col. E
0	\$2,000,000	NO TAX		0	\$5,000,000	NO TAX	
\$2,000,000	2,100,000	5.085% of the excess over 0					
2,100,000	2,600,000	\$106,800	8.0%				
2,600,000	3,100,000	146,800	8.8%				
3,100,000	3,600,000	190,800	9.6%				
3,600,000	4,100,000	238,800	10.4%				
4,100,000	5,100,000	290,800	11.2%				
5,100,000	6,100,000	402,800	12.0%	\$5,000,000	6,100,000	12.0% of the excess over \$5,000,000	
6,100,000	7,100,000	522,800	12.8%	6,100,000	7,100,000	\$132,000	12.8%
7,100,000	8,100,000	650,800	13.6%	7,100,000	8,100,000	260,000	13.6%
8,100,000	9,100,000	786,800	14.4%	8,100,000	9,100,000	396,000	14.4%
9,100,000	10,100,000	930,800	15.2%	9,100,000	10,100,000	540,000	15.2%
Over \$10,100,000		1,082,800	16.0%	Over \$10,100,000		692,000	16.0%

EFFECTIVE DATE: Upon passage and applicable to gifts made and estates of those who die on or after January 1, 2007.

revenue intercept and Municipal revenue sharing

Sales Tax Revenue Intercept (§§ 13 & 14)

The bill requires the revenue service commissioner to intercept 0.5% of the state's sales tax revenue. The state treasurer must allocate the money to a municipal cooperation account in the General Fund. The bill requires the fund to be available to the OPM secretary for the revenue sharing grant program the bill establishes.

Revenue Sharing Grant Program (§ 15)

The bill requires the OPM secretary to give semiannual grants to each regional council of elected officials or regional council of governments, which it collectively names as "municipal intergovernmental agencies." Regional planning agencies are not eligible. Starting by January 1, and June 1, 2008 and semi-annually

thereafter, OPM must pay the grants to the municipal intergovernmental agencies according to the ratio of the populations of their member municipalities to those of member municipalities of all such agencies statewide. The bill requires OPM to distribute 100% the intercepted sales tax revenue.

The agencies must use the funds for general revenue sharing grants paid jointly to any two or more of their member municipalities for specific initiatives to consolidate services and promote cooperation to achieve economies of scale and reduce noneducational costs. Municipalities can use the grants for capital improvements or other costs for the cooperative initiatives. Each municipal intergovernmental agency must distribute its grants according to an allocation plan it approves after a public hearing.

EFFECTIVE DATE: July 1, 2007

municipal budget limit (§ 16)

The bill imposes an annual budget limit on each municipality. It bars a municipal budget authority from authorizing a total annual budget that exceeds 4% of the total value of the taxable real and personal property in the municipality as of October 1, of the preceding year. It allows a municipal budget authority to exceed the limit only if (1) it approves the higher budget by a two-thirds vote and (2) the municipality's voters approve the higher budget in a referendum.

EFFECTIVE DATE: October 1, 2007

BACKGROUND

Streamlined Sales and Use Tax Agreement

The SSUTA is an agreement among member states to simplify their state and local sales and use tax laws and administrative procedures to encourage better and less expensive tax collection particularly on electronic and other cross-border transactions by remote sellers. It requires member states to, among other things, adopt uniform definitions for taxable and exempt products and services, simplify tax

rates by limiting themselves generally to one sales tax rate for all taxable products and services, administer both state and local sales and use taxes at the state level, and adopt uniform rules for sourcing transactions based on where items or services are delivered or used. It also establishes three types of certified technology systems for sellers to use to collect and remit sales taxes to all jurisdictions. Finally, the agreement establishes a multistate organization and mechanisms to administer the agreement and settle tax disputes.

The SSUTA became effective on October 3, 2005 after it was adopted by at least 10 states comprising at least 20% of the U.S. population, as determined by the 2000 Census. That date marked the start of (1) a web-based, centralized sales tax registration system for the member states and (2) an amnesty period for uncollected or unpaid sales or use taxes if sellers register to collect and remit taxes on sales to purchasers in member states. Also on that date, the SSUTA process for certifying sales tax collection software became final.

BACKGROUND

Related Bills

sHB 7098 (File 178), An Act Concerning Connecticut's Energy Future, expands sales tax exemptions for alternative fuel vehicles.

sSB 1260 (File 183), An Act Concerning Alternative Fuels and Flexible-Fueled Vehicles, also expands sales tax exemptions for alternative fuels and vehicles.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable

Yea 11 Nay 7 (03/23/2007)